



Canada: Newfoundland and Labrador Offshore Oil & Gas Industry

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Summary

The Newfoundland and Labrador offshore oil and gas industry is full of promising opportunities for American suppliers. Hebron, Hibernia, Terra Nova and White Rose are current projects with expenditure commitment of US \$10 billion, US\$14 billion, US\$4 billion, and US\$3 billion respectively over their project life. These numbers translates into US\$1.3 billion average annual expenditure of current projects in Newfoundland and Labrador's offshore area. Based on Canadian Association of Petroleum Producers (CAPP), in 2007 US\$1.35 billion was spent on exploration, development and operation in the province's offshore oil and gas industry. This expenditure reached up to US\$1.6 billion in 2008.

In addition to those current projects, the provincial government announces calls for bids on new parcels of oil fields every year. In 2008, Canada-Newfoundland and Labrador Offshore Petroleum Board (C-NLOPB) accepted 11 successful bids in the Newfoundland and Labrador Offshore area totaling US\$300 million. More tenders were announced in 2009 which are due in November. These expenditures take the forms of subcontracts and procurement opportunities, many of which supplied by foreign companies. These subcontracts create extensive opportunities for American suppliers, ranging from offshore oil extraction products and equipment to consultation and management services.

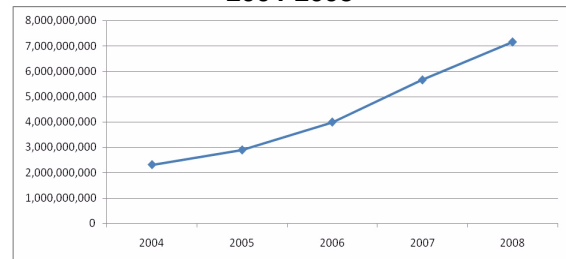
Market Demand

The Oil and Gas industry is the backbone of Newfoundland's economy. It accounts for 36% of the province's gross domestic product (GDP) and 80% of the province's export revenue. The United States is the major recipient of oil exported by this province. In 2008, Newfoundland exported more than US\$7 billion worth of oil to the United States.

Over the past five years, there has been an upward trend in the export of oil from Newfoundland creating opportunity in the development of additional offshore projects.

The C-NLOPB called for bids to develop 10 parcels of offshore oil field lands in 2008 and four parcels of offshore oil field lands in 2009. Although the bidding process is closed for the 2008 parcels, opportunities remain throughout the development process. Several of the 2008 offshore Labrador projects are in the exploration phase, and take the form of seismic acquisition and drilling. The 2009 parcels include one parcel in Jean d' Arc Basin, two parcels in Laurentian Sub basin and one parcel in Western Newfoundland, Labrador Offshore Region, comprising a total of 513,769 hectares. The deadline for the bids on these parcels is November 19, 2009.

**Oil Exports from Newfoundland & Labrador
2004-2008**



Source: Industry Canada

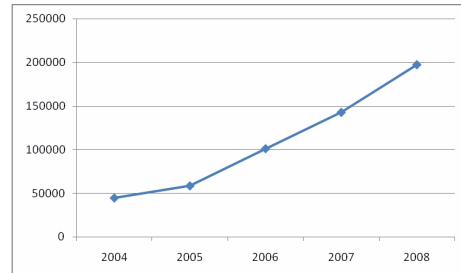
More advanced projects include Hibernia, Terra Nova, White Rose and Hebron. The first three projects are in the production phase while Hebron is in the pre-Front End Engineering and Design phase (pre-FEED). The exploratory and pre-FEED projects provide a spectrum of procurement opportunities from inspection and testing to drilling and construction. The more advanced projects are constantly undergoing refit, repair, maintenance, and

expansion, which offer a wide range of opportunities to U.S. firms who specialize in offshore oil equipment and supplies.

Compared to the province's oil exports, export of natural gas has been relatively small, US\$200,000 in 2007, and exported solely to France. Recently there has been an upward trend to increase the exports of natural gas in the province.

According to the province's Ministry of Natural Resources, the province plans to develop more natural gas projects. The province holds 60 trillion cubic feet of undiscovered natural gas resources, and, according to the Newfoundland & Labrador Oil and Gas Industries Association (NOIA), the Jeanne d' Arc Basin has the most potential. The challenge facing the province's natural gas development is transportation to market. Floating liquefied natural gas (LNG) is said to be one of the options but the province is lacking the technology and equipment necessary. In addition, natural gas development in Newfoundland is on its very edge and the province will start a pioneer project very soon. Natural gas development projects can create long-term opportunities for American companies.

**Natural Gas Export from
Newfoundland & Labrador
2004 - 2008**

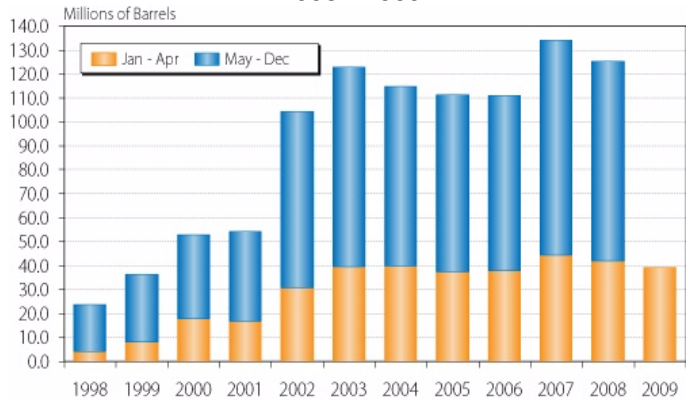


Source: Industry Canada

Market Data

In 2008, provincial offshore oil production totaled 125.5 million barrels, a 6.9% decrease from 2007. In 2009, Newfoundland's oil production reached 39 million barrels in the first quarter, a 6.7% decrease from the same period in 2008. The decrease was due to maintenance issues as well as natural production declines.

**Oil Production in Newfoundland and Labrador
1998 - 2009**

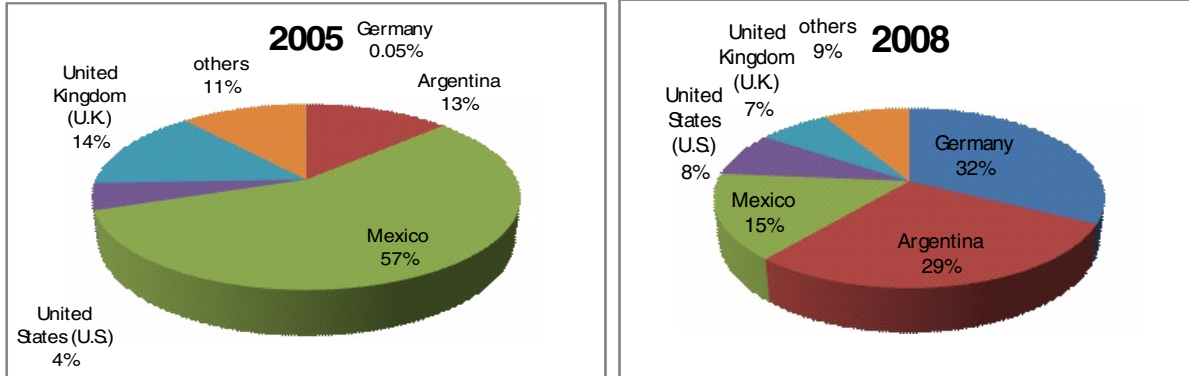


Source: Canada-Newfoundland and Labrador Offshore Petroleum Board

The total private and public investment in oil and gas extraction, excluding support activities, increased to US\$1.1 billion in 2009 up from US\$880 million in 2007. As of August, 2009, the amount invested in support activities has reached US\$89.3 million, 60% of which was on construction and the remaining on machinery and equipment. The amount invested in support activities in 2007 was US\$161 million, 78.6% of which was on construction and 21% was on machinery and equipment. In 2008, the province of Newfoundland imported oil and gas extraction equipment and construction products worth US\$14.5 million. Of this amount, U.S. firms captured 8% of the market, doubling their market share from 4% in 2005. Regardless

of this increase, American firms have not been able to expand their market share as quickly as their German competitors who have taken over the market from 0.05% in 2005 to 32% in 2008. Various sources have confirmed that German firms bid more competitively than U.S. firms. In addition to equipment and construction, the project holders contract bids on services including inspection and design.

Market Share of Oil and Gas Equipment and Construction in Newfoundland & Labrador



Source: Industry Canada

Best Prospects

The bids issued by project holders range from various services, including geophysics monitoring and detection to equipment supply, which includes diving gases and consumables. All types of equipment, technology and services that are used in the offshore oil and gas industry have the potential to be sold to project holders. Drill pipes, derricks, cranes, casing, tubing, dredgers, and platform and oil drilling vessels are the most popular category of products imported by the province.

The harsh environment of offshore Newfoundland and Labrador and the nature of the offshore oil industry calls for precise plans for environmental effects monitoring, ice management, oil spill response, and security and safety management. Products and services needed to address these plans generate another niche market within the industry.

Major Product Categories Used in Offshore Oil and Gas Imported by the Province

HS 730423	DRILL PIPE (Other than STAINLESS STEEL) Seamless, FOR USE IN DRILLING of OIL OR GAS
HS 730429	CASINGS, TUBING, OTHER THAN STAINLESS STEEL, SEAMLESS, FOR USE IN DRILLING FOR OIL OR GAS
HS 730621	CASING/TUBING, STAINLESS STEEL, WELDED, FOR OIL OR GAS DRILLING
HS 820719	ROCK DRILLING OR EARTH BORING TOOLS - WITH WORKING PART OF MATERIAL OTHER THAN CERMETS
HS 8426	DERRICKS; CRANES; MOBILE LIFTING FRAMES AND OTHER LIFTING MACHINERY
HS 843049	BORING OR SINKING MACHINERY NES - NOT SELF-PROPELLED (INCL OFFSHORE PLATFORMS FOR OIL AND GAS)

Source: Industry Canada

Key Suppliers

There is no clear country of preference for the import of goods and services in Newfoundland and Labrador's oil and gas industry. In this industry products and services in demand are specific to the projects announced. In 2008, the United States was the main source of the province's drill pipes, amounting to US\$1.1 million. Items of immense value such as dredgers, floating vessels and platforms are imported occasionally. Most recently, a floating vessel worth of US\$225 million was imported from Samsung Heavy Industry of South Korea, and in 2006, a second floating vessel worth of US\$10.5 million will be designed and supplied by Rolls Royce.

Import of Oil and Gas Extraction Construction and Equipment to Newfoundland & Labrador					
	2004	2005	2006	2007	2008
Germany	29,413	10,270	4,126,808	59,548	4,718,570
Argentina	1,281,610	2,730,612	2,697,006	1,583,771	4,153,836
Mexico	4,975,826	11,821,084	3,561,955	8,421,729	2,228,655
United States	1,408,829	974,467	2,516,634	276,473	1,168,968
United Kingdom (U.K.)	1,548,078	2,947,314	5,094,890	968,169	1,017,009
Japan	--	--	--	--	838,923

Source: Industry Canada

The largest servicing and manufacturing companies currently operating in the province's major offshore oil projects are: Schlumberger, PSN, Baker Petrolite, A. Harvey & Company Ltd., Noble Drilling Ltd, Crosbie Salamis Ltd., Aker Solution, Sodexho Alliance, Spectorol Energy Services, Maersk Company, East Coast Tubulars Ltd., Irving Equipment, and AOC Brown Root Canada.

Prospective Buyers

Annually the C-NLOPB calls for bids on new parcels of oil field lands. This provides companies opportunities to enter the market as project holders and operators. Project holders contract out for a variety of services through publications. They can also resort to their qualified suppliers for purchasing products, services and technologies. Below is a list of current active projects and the relative project holders:

Hibernia Oil Field:

This oil field is owned jointly by ExxonMobil Canada (EMC), Chevron Canada, Suncor Energy (formally Petro-Canada), Canada Hibernia Holding Corporation, Murphy Oil and StatoilHydro Canada Ltd. The project is developed with a Gravity Based Structure (GBS) and an Offshore Loading System (OLS). This project is in the Production Phase. The project's capital cost is US\$14 billion. Hibernia started in 1997 and will end in 2028.

Hebron:

ExxonMobil Canada is the operator of the project in conjunction with its co-ventures: Chevron Canada, Suncor Energy (formally Petro-Canada), StatoilHydro Canada Ltd, and Nalcor Energy. This project is in pre-Front End Engineering and Design (Pre-Feed) phase and will be developed with a GBS in 2012. The project's capital cost is US\$6 to 10 billion. Hebron started in 2008 and will end in 2042.

White Rose & Terra Nova Oil Fields:

Husky Energy is the landholder and operator in the White Rose and Terra Nova Oil Fields. White Rose and Terra Nova are both developed with Floating Production and Storage Offloading (FPSO) vessels. Both fields are in the Production Phase. White Rose's capital cost is US\$3 billion, it started in 2008 and its final date is to be determined. Terra Nova's capital cost is US\$4 billion, it started in 2001 and will end in 2020.

Labrador Offshore Area:

Husky Oil, Chevron and Vulcan Minerals Inc are the project operators in Offshore Labrador Area. The projects in Labrador Offshore area are in the exploration phase. US\$175 million was bid on these projects in 2008.

In addition to the projects above, there are other various exploration programs and drilling campaigns in Newfoundland and Labrador's offshore oil and gas industry. The links below provide more information on all of the current projects and programs.

[Hebron Project](#)
[Hibernia](#)
[White Rose and Terra Nova Oil Fields](#)
[Newfoundland and Labrador Oil and Gas Industry Summary \(2009\)](#)
[Vulcan Minerals Inc](#)

Market Entry

When calling for tenders, project holders use an approved supplier list that they have developed. In many cases, including [Husky Energy](#), new suppliers can register on line on the company's website. ExxonMobil Canada, the major operator for Hibernia and Hebron, is also in the process of setting up an electronic supplier database on its [website](#).

Project holders announce the tenders on different websites. [Bids](#) is one of the websites frequently used by project holders when issuing a tender. The bidding companies need to subscribe to view the open tenders. Project holders also call for tenders on NOIA's [website](#). Some procurement opportunities are announced on the [website](#) of Ocean Resources, which is a publication covering Canada's East Coast Offshore Oil and Gas industry. The Oil & Gas Magazine's [homepage](#) for contracts and bids is under construction. American suppliers are advised to monitor the trade activities in the industry by regularly checking the sources where the industry information and new calls for bids are published.

Under the North American Free Trade Agreement (NAFTA), no customs duties or tariffs are levied on qualified U.S. made products entering Canada. To get duty-free status under the NAFTA rules of origin, a commercial NAFTA import over CDN\$1,600 must be accompanied by a NAFTA Certificate of Origin; while a commercial import less than CDN\$1,600 requires a statement of origin from the exporter validating the product's U.S. origin. To determine whether a product is entitled to NAFTA treatment, The Canadian Border Services Agency (CBSA) also investigates the origins of the components of an item to see whether, in the manufacturing process, the item is transformed into another category. That is, NAFTA rules of origin are complex, thus, U.S. companies are advised to consult the U.S. Department of Commerce's NAFTA Certificate of Origin Interactive Tool at <http://web.ita.doc.gov/ticwebsite/ticit.nsf/>.

The Canadian Goods and Services tax (GST) of 5% on a value-added basis is assessed by Revenue Canada at the time of import, and at each subsequent resale level. Importers are entitled to partially offset their GST payments by collecting and retaining GST received from their customers.

Market Issues & Obstacles

Offshore oil field operators have to present a benefit plan along with the other documents when participating in a tender. This benefit plan is to ensure that fair and full opportunity is given to local and Canadian companies. In theory, the project holders must ensure that first consideration will be given to local and Canadian companies in terms of subcontracting and employment when all else is equal. The C-NLOPB is the regulatory body that oversees the compliance of the operators with the provisions and acts. The C-NLOPB acknowledges that it does not guarantee "the participation of Canadian and Newfoundland & Labrador workers and businesses". This states that if a foreign company bids more competitively than a local company it should win the contract.

Although industry experts mention that bidding competitively is a key success factor for market entry, experienced offshore suppliers have found partnership with local distributors an effective strategy to enter supply market of Newfoundland and Labrador's offshore oil and gas industry. Partnership with the NOIA, through acquiring its membership, is also said, by the industry experts, to be very advantageous considering the NOIA's influential stand within the province's offshore industry. American companies will find it useful to contact US Commercial Service offices for more information and for assistance in locating potential local partners.

Trade Events

[Atlantic Canada Petroleum Show \(ACPS\)](#)

St. John's, Newfoundland and Labrador
June 22-23, 2010

[Canadian Offshore Resources Exhibition & Conference \(CORE\)](#)

Halifax, Nova Scotia, Canada
October 6-8, 2009

[Global Petroleum Show](#)

Calgary, Alberta, Canada
June 8-10, 2010

Resources & Contacts

[Newfoundland and Labrador Oil and Gas Association \(NOIA\)](#)

[The Government of Newfoundland and Labrador Website](#)

[Canada-Newfoundland and Labrador Offshore Petroleum Board \(C-NLOPB\)](#)

[Ministry of Natural Resources for Newfoundland](#)

For More Information

The U.S. Commercial Service in Calgary, Alberta can be contacted via e-mail at: Crystal.Roberts@mail.doc.gov; Phone: (403) 265-2116; Fax: (403) 266-4743; or visit our website: www.buyusa.gov/canada

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